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Outlook for Implementation of *BPM6* in Chile

Prepared by the Central Bank of Chile

Outlook for implementation of BPM6 in Chile

Introduction

This note provides a brief outline of the activities, initial thoughts and plans related to BPM6 implementation in Chile. Although neither a definite action plan nor a date for conversion to the new standards have been established yet, several activities related to the implementation of the new guidelines have taken place, are being developed or will be initiated within the coming months.

The note is organized in five sections and one Annex: the first provides general background about the framework in which BOP compilation takes place, the second outlines the main guidelines for the implementation process, the third describes preliminary work conducted mainly in 2008-2009, the fourth presents future steps in this process, and the fifth includes concluding remarks centered on the main challenges faced. The annex presents a timetable of events that need to be carefully considered in planning.

1- Background

In Chile the Central Bank is responsible for compiling a range of macroeconomic statistics, among them, national accounts and balance of payments. The structure of the organization has changed over the years, highlighting the increasing importance of statistics and the need for closer coordination and synergies in data collection, compilation and dissemination.

Outstanding among these changes was the creation of a Statistics Division in 2008. Within this Division, the Macroeconomic Statistics branch is responsible for compiling National Accounts as well as Balance of Payments, International Investment Position, Merchandise Trade and External Debt statistics. These statistics are compiled by two departments- National Accounts and Balance of Payments and External Debt- using external sources as well as data collected by the Central Bank. The responsibility for data collection by the Central Bank also lies within the Statistics Division (Statistical Information branch).

During the last decade, data collection and compilation of international transactions and positions has experienced important changes in Chile. In this period, exchange controls were lifted, and compilers faced globalization and increasing complexity of transactions. As a result, the traditional data collection system, based mainly on indirect reporting by banks and linked to exchange controls, is being gradually replaced by one that relies more on direct reporters and is in a better position to meet new data needs. The process has been gradual, and has involved balancing ever increasing and complex requirements, with realistic possibilities that take into account materiality of issues, as well as costs and reporting burden. Therefore, there are still areas where gaps between international guidelines and current data sources and compilation methodologies remain.

2- Main guidelines for the implementation process

Plans regarding implementation in Chile of BPM6 recommendations are still in a stage of preliminary discussions. However, within the aforementioned framework, and from

the experience gained in BPM5 implementation, the following general principles are expected to guide the process:

- 1- Not aim for full implementation in one stage. Rather, implementation is considered a gradual process that may continue for years.
- 2- Aim for conversion of presentation, including changes in names, reclassifications, plus a limited number of other changes, at one point in time. Additional changes are to be incorporated gradually after that.
- 3- Focus first on issues most relevant for the country, as well as on those that are easy and not costly to implement.
- 4- Coordinate with other macroeconomic statistics, notably, with national accounts. During recent years, significant efforts have been made in Chile to align balance of payments and national accounts data, covering a range of aspects, both related to organization as well as to data sources and methodology. Currently, quarterly and annual data and revisions are coordinated and disseminated at the same time, and data are regularly reconciled in those exceptional cases where differences remain.

3- Preliminary work

Preparation for BPM6 implementation began mostly in 2008, on the basis of draft versions of BPM6. Work has continued in 2009, and has focused mainly on FDI statistics, where the aim is to improve methodology and sources in order to comply with BMD4 recommendations, which are consistent with BPM6. Chile's process of incorporation to OECD has involved preparatory work in this area during the past two years. As well, during this period, work carried out on other specific subjects has been conducted with a view to collecting and compiling data according to BPM6 standards.

Following is a brief description of those activities:

3.1-Identification of gaps regarding BPM6 guidelines

This involved identifying not only those issues where BPM6 recommendations differ from those in BPM5, and thus, where non-compliance is expected, but also, issues for which BPM6 concepts remain basically the same as in BPM5, and where current practices in Chile deviate from the standards. Thus, BPM6 implementation in Chile will involve considering issues that are not only innovations in the international guidelines, but also, aspects of BPM5 that have not been applied, and which could be more significant than the former.

3.2- Application of IMF conversion matrix

In early 2009, the IMF conversion matrix was applied to Chilean BOP data for the third quarter of 2008, and the results sent to the IMF's Statistics Department. The matrix was assessed as being clear and useful. Other- expected- findings, were that, for Chile, there are a significant amount of extra data needed in order to effectively convert from one presentation to the other, as well as to compile memorandum and supplementary data.

3.3- Impact /effort matrix

The purpose is to prepare a matrix where each of the issues that change in BPM6 regarding BPM5, or for which Chile's current practices deviate from the standards, is assigned, in a preliminary fashion, a level of High, Medium or Low, in two aspects: likely impact (materiality) of the issue, and likely difficulty (cost) of implementation. Combining these evaluations will be useful in establishing a set of priorities for investigation and/or implementation. For example, issues deemed to have High Impact and Low Cost would be at the top of the list, and those of Low Impact and High Cost, at the bottom. The concept of Low when referred to impact, however, should be viewed with caution, as it may be defined in absolute or relative terms, and, in the latter case, defined in relation to different concepts. Nonetheless, and although the matrix is not finalized, the process has been helpful in establishing a preliminary list of issues that will be given priority in terms of investigations and/or implementation.

3.4- Other specific areas where work has been advancing, and/or changes made, in line with BPM6 recommendations.

a- Investment income of mutual funds:

From data for 2003 onward, data on investment income earned by resident pension funds on their holdings of shares of non resident mutual funds covers not only dividends but also reinvested earnings. This change was introduced in March of 2006.

b- SDR allocation

The recent allocation of SDRs by the IMF will be reflected in Chilean data disseminated in November 2009, as a liability within Other Investment in the BOP and the IIP, as well as in external debt statistics.

c- Remittances

A survey of money transfer companies was introduced in Chile in 2007, and has been applied annually since then. It collects data on inflows and outflows channeled by these companies. The transfers are deemed to occur mostly among households and to correspond broadly to the BPM6 concept of personal transfers, so were included in the BOP under current transfers, beginning with 2006.¹

d- FISIM

In coordination with the activities carried out for the national accounts new reference year (2008), balance of payments compilers have initiated work to estimate resident non resident FISIM for the first time. The results are scheduled for the first quarter of 2010, and will be incorporated in the BOP data that will be consistent with the new national accounts base year, which will probably be disseminated during the first half of 2011.

e- FDI

¹ However, they may also include compensation of employees or capital transfers.

Chile has been involved in a significant amount of work in the area of FDI statistics. As part of the evaluation process for accession to OECD membership, Chile completed the SIMSDI questionnaire in December 2008. This was followed by an examination conducted by the WGIIS, in March of 2009 and subsequent additional clarifications. Chile has committed to provide to the OECD, standard FDI data compiled according to BMD4 recommendations by April, 2011, for reference year 2009. Given Chile's current data sources and methodology, this will involve important changes in data sources and compilation practices, which go beyond what could be expected from the innovations introduced by BMD4 in respect of BMD3. Among the methodological changes in FDI measurement in Chile will be the incorporation of reverse investment, a more complete coverage of debt classified under debt instruments within FDI, the extension of the 10% threshold for inward FDI and its application in regard to voting power, the inclusion of lending among fellow enterprises, and the identification of direct investment relationships according to the direct-indirect method specified in BMD4.

One of the activities included in the action plan prepared for implementing these changes was a workshop on FDI concepts and statistical requirements according to BMD4, BPM6 and the CDIS. The workshop was followed by the preparation of a pilot survey to be conducted during the fourth quarter of this year, and applied to a sample of representative companies in order to try out the questions and obtain feedback from them. During October, meetings were held with the companies, in order to explain the questionnaire further, and to receive comments which may contribute to improve the survey that will be applied next year to a larger number of reporters.

4- Future steps

Formal planning for BPM6 implementation will start in end-2009 or early 2010, by setting up a working group that will oversee the process and coordinate it with national accounts. This group will build on preliminary work conducted previously. Foremost among its activities will be the definition of an action plan to guide the process. This plan will consider issues such as:

4.1- Setting a date for an overall changeover from BPM5 to BPM6 formats

Current thinking is that this conversion from BPM5 to BPM6 format would involve: introduction of new names, changes in presentation, reclassification of items where feasible, and incorporation of a few other selected issues which could be compiled according to BPM6 guidelines by that date. In setting this date, issues to be considered are: the IMF conversion process for BOPSY and IFS, initially targeted for 2012 (reference year 2011), the dissemination of Chilean national accounts data compiled on the basis of the 2008 reference year, targeted for March of 2011 (2008 data), and March of 2012 (series from 2003 onward), the provision of FDI data to the OECD in April, 2011. The definition of a date for conversion also involves establishing the period that will initially be covered by the new presentation.

4.2- Defining categories of issues to be incorporated in different stages

To assist in planning stages in the implementation process, issues for which current practice in Chile differs from BPM6 standards, regardless of whether the treatment has changed or not in relation to BPM5 recommendations, will be classified into the following groups:

- a- Issues for which BPM6 methodology has been or could be applied before the date set for overall changeover (examples are reinvested earnings of mutual funds, SDR allocations, FDI).
- b- Issues for which new standards would be applied at the time of conversion of formats (includes changes in names, presentation, and a selection of other issues; example: FISIM)
- c- Issues which could be considered for implementation after conversion of formats
- d- Issues for which no plans will be made (either because the foreseen costs or complexity of implementation outweigh the benefits, or for other reasons).

The impact/effort matrix which is being developed will assist in defining which issues will be classified under each category. Also, as work on specific subjects progresses, some issues initially classified in one category may be shifted to another.

4.3- Continuing or initiating investigation on methodology and/or data sources and estimation procedures for specific topics.

This involves continuing and/or initiating projects on specific subjects, and may include not only those classified in categories 4.2.a and 4.2.b, above, but also, some in 4.2.d. Examples of such projects could be: FDI, FISIM, construction services, free zones, goods for processing, merchanting, financial leasing, insurance and pension schemes, investment funds, data on transactions related to seasonal, border and other short-term workers; data related to migration, treatment of intellectual property, carbon permits. These projects would cover the following aspects:

- a- Current methodology and sources
- b- BPM6 standard
- c- Gaps
- d- Impact of recommended treatment, considering amounts involved, analytical aspects and effects on other statistics
- e- Proposal of changes to current sources or for development of new ones
- f- Methodology to calculate back series
- g- Specific action plans to implement new data sources and methodologies. To guide the implementation of new sources and methodologies, plans would include aspects such as:
 - i- Pilot studies and coordination with data providers:
this involves trying out new or revised questionnaires with a sample of respondents, and obtaining feedback from them, as well as coordinating with other agencies.
 - ii- System changes:

systems will need to be adapted or created in order to receive and compile data from new or revised sources.

iii- Updating methodology (metadata):

it is important to keep methodology updated, not only from a users but also from a compilers point of view, not least to be prepared for movements of staff.

5- Concluding remarks: Main challenges

Implementing BPM6 in Chile poses a range of challenges which should not be overlooked in order for the process to be successful. Following is a list of issues that need to be considered carefully in planning and decision making.

5.1 Coordination with National Accounts

The current level of coordination between BOP and national accounts in Chile has been the outcome of a long process and must not only be preserved but also improved. Implementation of the new standards, therefore, must take into account the fact that BOP data are, for the most part, inputs for national accounts, and that these data must be provided with sufficient lead time in order to be incorporated in those accounts. Another fact to be considered is that data for national accounts reference year 2008, which will be disseminated no earlier than March of 2011, will be compiled mostly according to SNA 93 recommendations. Therefore, innovations in SNA2008 will probably be incorporated in data for the following reference year (2013).

5.2 Continuing the current data production and dissemination process while preparing for BPM6

Balancing the needs of an ongoing process of statistical compilation with those associated to preparing for implementation of new standards is not an easy task. One of the issues is whether it is more efficient to set up a separate group devoted exclusively to investigate the subjects and prepare for BPM6 implementation, or rather to distribute this assignment among those in charge of regular data compilation.

5.3 Having well-prepared staff

In order to implement the new standards, it is necessary that staff involved in the project be well prepared in the concepts involved in the new standards, as well as in current methodologies and sources. This may involve training, participation in workshops, seminars and/or courses.

5.4 Considering practical issues

Implementation has to consider the availability of resources for the compiling agency. Also, changes in current data sources or development of new ones require close coordination with and cooperation from data providers, assessing reporting burden, and analyzing costs and benefits of the proposed changes.

5.5 Estimating back series

The need for consistent time series for analytical and policy purposes should be viewed as part of the implementation process. It is probably better that these series be provided by compilers themselves, who have a good understanding of the old and new sources and concepts, rather than left to users of statistics.

5.6 Informing users

Users- both within and outside the Central Bank- should be informed of the changes well in advance of implementation, and feedback obtained from them. In this regard, the statistical users group which was set up in 2009 will be an important means to introduce new presentations, names, concepts and conventions. Communication policies should be planned.

5.7 Developing/adapting systems

Systems development is an important part of the implementation of the new standards. In this regard, it is important that new systems be designed in a flexible way, in order to have room for growth, given that implementation will be gradual, and that there are a number of supplementary series that will likely not be considered at initial stages, but that may be covered at later stages of implementation.

5.8 Monitoring “non relevant” issues

Given the fast pace of changes that occur continuously in a growing and interdependent world economy, it is possible that issues initially considered not relevant for Chile, and that will not be considered for BPM6 implementation because of their high complexity or cost, become more significant over time. It is therefore convenient to monitor developments regarding those issues, revisiting them after some time.

ANNEX

Timetable of events to be considered in planning BPM6 implementation

